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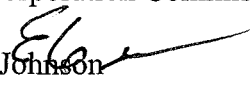


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MEMORANDUM

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TO: Docket Control  
Arizona Corporation Commission

FROM: Ernest G. Johnson   
Director  
Utilities Division

Date: January 8, 2007

RE: STAFF REPORT FOR THE APPLICATION OF JNJ ENTERPRISES, DBA  
CHRISTOPHER CREEK HAVEN WATER COMPANY, AND UTILITY  
SYSTEMS, LLC FOR APPROVAL OF THE TRANSFER OF ASSETS AND  
CERTIFICATE OF CONVENIENCE AND NECESSITY DOCKET NOS.  
W-03880A-06-0299 AND W-20459A-06-0299

Attached is the Staff Report for the application of JNJ Enterprises, dba Christopher Creek Haven, for approval to transfer its the assets and Certificate of Convenience and Necessity to Utility Systems, LLC. Staff recommends approval of the transfer.

EGJ:LAJ:tdp

Originator: Linda A. Jaress

Arizona Corporation Commission  
**DOCKETED**

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AZ CORP COMMISSION  
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Service List for: JNJ Enterprises, dba Christopher Creek Haven Water Company  
and Utility Systems, , L.L.C.

Docket Nos. W-03880A-06-0299 and W-20459A-06-0299

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STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION

JNJ ENTERPRISES, LLC DBA CHRISTOPHER CREEK HAVEN WATER COMPANY  
AND UTILITY SYSTEMS, LLC

APPLICATION FOR APPROVAL OF TRANSFER OF ASSETS AND  
CERTIFICATE OF  
CONVENIENCE AND NECESSITY

DOCKET NO. W-03880A-06-0299 AND  
DOCKET NO. W-20459A-06-0299

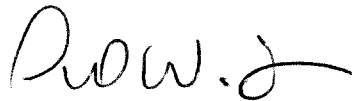
JANUARY 8, 2007

## STAFF ACKNOWLEDGMENT

The Staff Report for JNJ Enterprises, LLC dba Christopher Creek Haven Water Company and Utility Systems, LLC, Docket No. W-03880A-06-0299 and Docket No. W-20459A-06-0299 was prepared by the Staff members shown below.

A handwritten signature in black ink, appearing to read "L. A. Jaress".

Linda A. Jaress  
Executive Consultant III

A handwritten signature in black ink, appearing to read "Del Smith".

Del Smith  
Engineering Supervisor

**EXECUTIVE SUMMARY**  
**JNJ ENTERPRISES, DBA CHRISTOPHER CREEK HAVEN WATER COMPANY**  
**AND UTILITY SYSTEMS, L.L.C.**  
**DOCKET NOS. W-03880A-06-0299 AND W-20459A-06-0299**

On May 11, 2006, JNJ Enterprises, LLC, dba Christopher Creek Haven Water Company ("Christopher Creek" or "the Company") filed an application to transfer the assets and Certificate of Convenience and Necessity ("CC&N") of Christopher Creek to Utility Systems, LLC ("Utility Systems"). Christopher Creek and JNJ Enterprises, LLC dba Gardner Water Company ("Gardner") are less than 10 miles apart and are both owned and operated by Mr. Gerald Lendzion. The transfer of Gardner to Utility Systems is the subject of another pending docket. Mr. Lendzion expressed a desire to sell both companies "for personal reasons". Mr. Lendzion does not live full time in the Payson area. Mr. Jeffery Daniels, the manager of Utility Systems is a full-time resident in the area, is familiar with the system and will have the ability to respond more quickly to problems. Furthermore, Mr. Daniels is also an Arizona Department of Environmental Quality ("ADEQ") certified operator for water distribution and treatment.

Staff recommends approval of the transfer of assets and CC&N of JNJ Enterprises, LLC to Utility Systems, LLC.

Staff recommends that the Company file with docket control, as a compliance item in this docket, within 60 days of the final order in this case, documentation that its 2005 property taxes were paid.

Staff recommends that the Company file a rate case using a 2007 test year by March 31, 2008, due to its poor financial health.

Staff also recommends the Commission order Christopher Creek Haven to keep its books and records in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts as required by A.C.C. R14-2-411.D.2.

Staff recommends that the Company file with docket control, as a compliance item in this docket, documentation demonstrating that PWS ID # 04-005 is in full compliance with ADEQ requirements within 60 days of the effective date of the Commission's order in this matter.

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## Introduction

On May 11, 2006, JNJ Enterprises, LLC, dba Christopher Creek Haven Water Company ("Christopher Creek" or "the Company") filed an application to transfer the assets and Certificate of Convenience and Necessity ("CC&N") of Christopher Creek to Utility Systems, LLC ("Utility Systems"). Christopher Creek provides service to a small area (approximately one fourth of a square mile) east of Payson, Arizona in Gila County and serves approximately 166 customers. Attached as Exhibit 1 is the legal description and map of the area.

Christopher Creek and JNJ Enterprises, LLC dba Gardner Water Company ("Gardner") are less than 10 miles apart and are both owned and operated by Mr. Gerald Lenzion. The transfer of Gardner to Utility Systems is the subject of another pending docket. Mr. Lenzion expressed a desire to sell both companies "for personal reasons". Mr. Lenzion does not live full time in the Payson area. Mr. Jeffery Daniels, the manager of Utility Systems is a full-time resident in the area, is familiar with the system and will have the ability to respond more quickly to problems. Furthermore, Mr. Daniels is also an Arizona Department of Environmental Quality ("ADEQ") certified operator for water distribution and treatment.

Attached to the application is a "Commercial Real Estate Purchase Contract" showing Gerald and Nadine Lenzion as the sellers and Jeffery and Dianne Daniels and Utility Systems L.L.C. as the buyers. The Purchase Contract is for both the Christopher Creek and Gardner water companies. The sales price is shown as \$280,000 with \$220,000 of the sales price being carried by Gerald Lenzion. The sale is contingent upon Arizona Corporation Commission approval and upon the Gerald Lenzion carry back and upon the continued carry back of Carroll Powell, previous owner of Gardner. Finally, the Purchase Contract indicates that Mr. Lenzion will "consult for 1 year at no cost to buyer."

The 2005 annual report of JNJ Enterprises, LLC filed with the Commission is a consolidation of the two companies. However, the balance sheet included in the annual report does not balance. It shows total assets of \$259,363 but liabilities and capital of only \$155,942. If the Company's assets do not equal its liabilities, then clearly, the Company is not following the NARUC system of accounts as required by A.A.C. R14-2-411.D.2.

The annual report showed a total of 250 customers at year end 2005, net plant of \$251,746, zero customer deposits and zero advances in aid of construction. Long term debt of \$108,384 was also reported. This debt consists of \$106,384 for the purchase of the water companies and \$2,000 owed to Gerald Lenzion for operating costs. Principal and interest on the two loans from the non-affiliates equals approximately \$17,400 per year. According to the annual report's income statement, the combined companies generated losses of \$56,388 in 2004 and \$29,824 in 2005.

JNJ Enterprises, LLC's annual report did not contain the canceled checks representing amounts paid for property taxes for the year 2005 as required in the annual report form. Staff

recommends that the Company file with docket control, as a compliance item in this docket, within 60 days of the final order in this case, documentation that 2005 property taxes were paid.

Staff believes that due to inaccurate accounting and apparent large losses, the financial health of Christopher Creek and its continued ability to provide adequate service is at risk. Staff recommends that the Company file a rate case by March 31, 2008, using a 2007 test year. Staff also recommends the Commission order Christopher Creek Haven to keep its books and records in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts as required by A.C.C. R14-2-411.D.2.

### **Christopher Creek Haven's Water System**

The Company's system consists of four wells with total production of 81 gallons per minute, five storage tanks with total storage capacity of 45,000 gallons and a distribution system. Attached as Exhibit 2, is Staff's Engineering Report which concludes that the Company's system has adequate production and storage capacity to serve its existing base of customers and growth.

The Report also concluded that the Company's water loss is within acceptable limits.

### **Compliance**

ADEQ regulates the Christopher Creek water system under ADEQ Public Water System Identification No. ("PWS ID #") 04-005. ADEQ determined on October 24, 2006 that this system was delivering water that met ADEQ's water quality standards and did not have any major monitoring and reporting deficiencies. Arsenic levels reported by the Company are below the new maximum arsenic standard of 10 micrograms per liter.

However, ADEQ reported that there were discrepancies in the well identification data submitted with certain water tests and requested that the Company provide documentation showing the correct well identification data. Therefore, Staff recommends that the Company file with docket control, as a compliance item in this docket, documentation demonstrating that PWS ID # 04-005 is in full compliance with ADEQ requirements within 60 days of the effective date of the Commission's order in this matter.

Christopher Creek is not in an Arizona Department of Water Resources ("ADWR") Active Management Area. Therefore, the Company is not required to comply with ADWR monitoring and reporting requirements.

The Commission's Utilities Division compliance database indicated that there were no compliance delinquencies for Christopher Creek Haven.



### **Recommendations**

Staff recommends approval of the transfer of assets and CC&N of Christopher Creek to Utility Systems, LLC.

Staff recommends that the Company file with docket control, as a compliance item in this docket, within 60 days of the final order in this case, documentation that 2005 property taxes were paid.

Staff recommends that the Company file a rate case by March 31, 2008, using a 2007 test year.

Staff also recommends the Commission order Christopher Creek Haven to keep its books and records in accordance with the National Association of Regulatory Commissioners Uniform System of Accounts as required by A.C.C. R14-2-411.D.2.

Staff recommends that the Company file with docket control, as a compliance item in this docket, documentation demonstrating that PWS ID # 04-005 is in full compliance with ADEQ requirements within 60 days of the effective date of the Commission's order in this matter.

If the Company does not comply with the above recommendations by the dates specified, the decision granting the transfer should be null and void after due process.

**MEMORANDUM**

TO: Linda Jaress  
Executive Consultant III  
Utilities Division

FROM: Barb Wells   
Information Technology Specialist  
Utilities Division

THRU: Del Smith   
Engineering Supervisor  
Utilities Division

DATE: May 25, 2006

RE: **CHRISTOPHER CREEK HAVEN WATER COMPANY (JNJ ENTERPRISES) (DOCKET NO. W-03880A-06-0299)**  
**UTILITY SYSTEMS, LLC (DOCKET NO. W-20459A-06-0299)**

Christopher Creek Haven Water Company (JNJ Enterprises, LLC) has filed an application to transfer their CC&N to Utility Systems, LLC.

Attached is a copy of the map for your files.

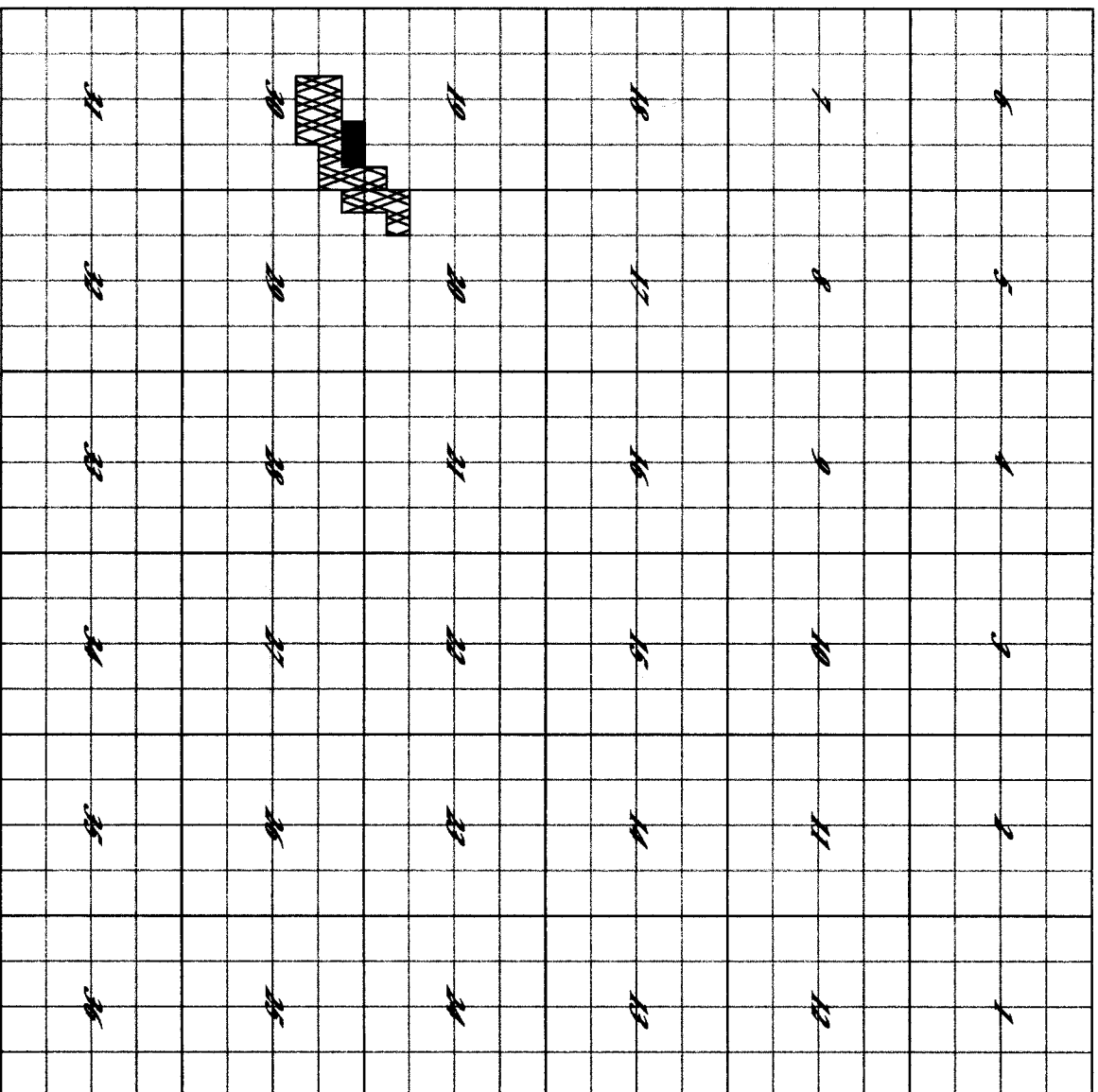
:bsw

Attachment

cc: Christopher Creek Haven Water Company  
Utility Systems, LLC  
Ms. Deb Person (Hand Carried)  
File

# COUNTY: Gila

## RANGE 13 East



## TOWNSHIP 11 North



W-3880 (2)

JNJ Enterprises, LLC (Christopher Creek)



(1)

Christopher Creek Estates Association (Nonjurisdictiona

JNJ Enterprises, LLC

(Christopher Creek Haven Water Company)

Docket No. W-03880A-06-0299

Application to Transfer to


Utility Systems, LLC

Docket No. W-20459A-06-0299

## MEMORANDUM

DATE: December 28, 2006

TO: Linda Jaress

FROM: Del Smith 

RE: APPLICATION OF CHRISTOPHER CREEK HAVEN WATER COMPANY  
FOR APPROVAL OF THE SALE AND TRANSFER OF ITS CERTIFICATE  
OF CONVENIENCE AND NECESSITY TO UTILITY SYSTEMS, LLC.  
(DOCKET NOS. W- 03880A-06-0299 AND W-20459A-06-0299)

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### **Introduction**

JNJ Enterprises L.L.C. dba Christopher Creek Haven Water Company ("Christopher Creek" or "the Company") has filed an application ("Application") for Approval of the Sale and Transfer of its Certificate of Convenience and Necessity ("CC&N") with the Arizona Corporation Commission ("ACC" or "the Commission"). The purpose of this Application is to transfer the CC&N to Utility Systems, L.L.C. ("Utility Systems"). Christopher Creek's service area is located approximately 20 miles east of Payson on Highway 260 in Gila County. The Company serves approximately 160 acres (one-quarter of a square mile) in parts of Sections 19, 20, 29 and 30 in Township 11 North Range 13 East. In June 2005, the Company was providing water utility service to 166 customers.<sup>1</sup>

### **Christopher Creek's Water System**

The Company's system consists of four wells (with total production of 81 gallons per minute), five storage tanks (with total storage capacity of 45,000 gallons) and a distribution system serving 166 metered connections. Fire protection is not provided. The Christopher Creek system has adequate production and storage capacity to serve its existing base of customers and growth. Apparently, the Company is experiencing minimal growth and has actually lost a couple of customers in the last year.<sup>2</sup>

### **Non-account Water**

Non-account water should be 10% or less and never more than 15%. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. Non-account water for the Company was calculated to be 4 percent during 2005, which is within acceptable limits.<sup>3</sup>

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<sup>1</sup> Information reported in response to Staff's insufficiency letter.

<sup>2</sup> Information reported in response to Staff's insufficiency letter.

<sup>3</sup> Information reported in response to Staff's insufficiency letter.

### **Arizona Department of Environmental Quality ("ADEQ") Compliance**

ADEQ regulates the Christopher Creek water system under ADEQ Public Water System Identification No. ("PWS ID #") 04-005. ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. ADEQ also reported that this system does not have any major monitoring and reporting deficiencies however, ADEQ reported that there were discrepancies in the well identification data submitted with certain water tests and requested that the Company provide documentation showing the correct well identification data.<sup>4</sup> Staff recommends that the Company file, as a compliance item in this docket, documentation demonstrating that PWS ID # 04-005 is in full compliance with ADEQ requirements within 60 days of the effective date of the Commission's order in this matter.

Arsenic levels reported by the Company for the Christopher Creek system comply with the new arsenic standard of 10 micrograms per liter that became effective on January 23, 2006.<sup>5</sup>

If the proposed transfer is approved, an ADEQ certified operator will be employed by Utility Systems to operate the Christopher Creek system.

### **Arizona Department of Water Resources ("ADWR") Compliance**

Christopher Creek is not in an ADWR Active Management Area. Therefore, the Company is not required to comply with ADWR monitoring and reporting requirements.

### **ACC Compliance**

A check of the Commission's Utilities Division compliance database indicated that there were no compliance delinquencies for Christopher Creek.<sup>6</sup>

### **Summary**

#### **Conclusions**

1. The Christopher Creek system has adequate production and storage capacity to serve its existing base of customers and growth.
2. Non-account water for the Company was calculated to be 4 percent during 2005, which is within acceptable limits.
3. Christopher Creek is not in an ADWR Active Management Area. Therefore, the Company is not required to comply with ADWR monitoring and reporting requirements.

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<sup>4</sup> ADEQ Drinking Water Compliance Status Report dated 10-24-06.

<sup>5</sup> Information reported in the Company's 2005 Commission Annual Report.

<sup>6</sup> Per Compliance Section email dated 12-26-06.

4. A check of the Commission's Utilities Division compliance database indicated that there were no compliance delinquencies for Christopher Creek.

**Recommendations**

1. Staff recommends that the Company file, as a compliance item in this docket, documentation demonstrating that PWS ID # 04-005 is in full compliance with ADEQ requirements within 60 days of the effective date of the Commission's order in this matter.